

**REPORT OF THE AUDIT OF THE
MONTGOMERY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

The Auditor of Public Accounts has completed the Montgomery County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$196,285 from the beginning of the year, resulting in a cash surplus of \$1,440,476 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$610,872. Future collections of \$871,404 are needed over the next 12 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$650,976 as of June 30, 2003. Future principal and interest payments of \$700,216 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
MONTGOMERY COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES	10
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE.....	15
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE	19
NOTES TO FINANCIAL STATEMENTS	20
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	29
SCHEDULE OF OPERATING REVENUE	33
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	36
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	41
APPENDIX A:	
CERTIFICATION OF COMPLIANCE – LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Banford D. Wilson, Jr., Montgomery County Judge/Executive

Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Montgomery County, Kentucky, as of June 30, 2003, and the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund types, the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type, and the related statement of cash flows - proprietary fund type for the year then ended. These financial statements are the responsibility of the Montgomery County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Montgomery County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Montgomery County, Kentucky, as of June 30, 2003, and its receipts and disbursements and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Banford D. Wilson, Jr., Montgomery County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2004, on our consideration of Montgomery County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Montgomery County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 18, 2004

MONTGOMERY COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Banford D. Wilson, Jr.	County Judge/Executive
Lloyd G. Cassidy	Commissioner
S. Norman Lansdale	Commissioner
Frank M. Sponcil	Commissioner

Other Elected Officials:

Paul D. Cowden	County Attorney
Everett D. Myers	Jailer
Judy L. Witt	County Clerk
Connie Curtis	Circuit Court Clerk
Fred D. Shortridge	Sheriff
Jeffrey D. Garrison	Property Valuation Administrator
Wallace Johnson	Coroner

Appointed Personnel:

Forrest C. Brown	County Treasurer
Brenda L. Jackson	Finance Officer
Barbara Reynolds	Occupational Tax Collector

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

MONTGOMERY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 1,490,436	\$ 570,843	\$ 32,693	\$ 2,093,972
Note Receivable (Note 4A)		261,753		261,753
Total Assets	<u>\$ 1,490,436</u>	<u>\$ 832,596</u>	<u>\$ 32,693</u>	<u>\$ 2,355,725</u>
<u>Other Resources</u>				
Amounts to be Provided				
In Future Years for:				
Jail Participation Agreement	\$ 610,872	\$	\$	\$ 610,872
Capital Leases	<u>650,976</u>			<u>650,976</u>
Total Other Resources	<u>\$ 1,261,848</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,261,848</u>
Total Assets and Other Resources	<u><u>\$ 2,752,284</u></u>	<u><u>\$ 832,596</u></u>	<u><u>\$ 32,693</u></u>	<u><u>\$ 3,617,573</u></u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Jail Participation Agreement (Note 5)	\$ 610,872	\$	\$	\$ 610,872
Capital Leases:				
Courthouse Annex (Note 6A)	175,000			175,000
Industrial Park Expansion (Note 6B)	405,480			405,480
Vehicles (Note 6C)	52,813			52,813
Vehicle (Note 6D)	17,683			17,683
Payroll Revolving	42,895			42,895
Total Liabilities	<u>\$ 1,304,743</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,304,743</u>
<u>Equity</u>				
Fund Balances:				
Unreserved	<u>\$ 1,447,541</u>	<u>\$ 832,596</u>	<u>\$ 32,693</u>	<u>\$ 2,312,830</u>
Total Equity	<u>\$ 1,447,541</u>	<u>\$ 832,596</u>	<u>\$ 32,693</u>	<u>\$ 2,312,830</u>
Total Liabilities and Equity	<u>\$ 2,752,284</u>	<u>\$ 832,596</u>	<u>\$ 32,693</u>	<u>\$ 3,617,573</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

MONTGOMERY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,084,695	\$ 838,194	\$ 1,237,251	\$ 71,663
Other Financing Sources:				
Transfers In		432,643	279,066	8,315
Kentucky Advance Revenue Program	1,780,600			
Total Cash Receipts	<u>\$ 5,865,295</u>	<u>\$ 1,270,837</u>	<u>\$ 1,516,317</u>	<u>\$ 79,978</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,964,382	\$ 1,270,837	\$ 1,471,822	\$ 88,000
Other Financing Uses:				
Transfers Out	785,663			
Jail Participation Agreement:				
Principal			33,379	
Capital Lease Agreements				
Principal	138,365		4,051	
Kentucky Advance Revenue Program				
Repaid	1,780,600			
Total Cash Disbursements	<u>\$ 5,669,010</u>	<u>\$ 1,270,837</u>	<u>\$ 1,509,252</u>	<u>\$ 88,000</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 196,285	\$	\$ 7,065	\$ (8,022)
Cash Balance - July 1, 2002	<u>1,244,191</u>			<u>8,022</u>
Cash Balance - June 30, 2003	<u><u>\$ 1,440,476</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 7,065</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Special Revenue Fund Type					
Finneran Fund	Health and Civic Center Fund	Emergency Food and Shelter Fund	Juvenile Justice Fund	Revolving Loan Fund	Totals (Memorandum Only)
\$ 3,978	\$ 163,295	\$ 15,784	\$ 1,840	\$ 166,218	\$ 6,582,918
	30,000		35,639		785,663
					1,780,600
<u>\$ 3,978</u>	<u>\$ 193,295</u>	<u>\$ 15,784</u>	<u>\$ 37,479</u>	<u>\$ 166,218</u>	<u>\$ 9,149,181</u>
\$ 900	\$ 116,218	\$ 15,784	\$ 42,030	\$ 23,174	\$ 5,993,147
					785,663
					33,379
					142,416
					1,780,600
<u>\$ 900</u>	<u>\$ 116,218</u>	<u>\$ 15,784</u>	<u>\$ 42,030</u>	<u>\$ 23,174</u>	<u>\$ 8,735,205</u>
\$ 3,078	\$ 77,077	\$	\$ (4,551)	\$ 143,044	\$ 413,976
80,949	74,840		4,551	191,855	1,604,408
<u>\$ 84,027</u>	<u>\$ 151,917</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 334,899</u>	<u>\$ 2,018,384</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

MONTGOMERY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	<u>Jail Canteen Fund</u>
<u>Cash Receipts</u>	
Receipts - Jail Canteen	<u>\$ 183,093</u>
Total Cash Receipts	<u>\$ 183,093</u>
<u>Cash Disbursements</u>	
Expenditures - Jail Canteen	<u>\$ 175,787</u>
Total Cash Disbursements	<u>\$ 175,787</u>
Excess of Cash Receipts Over Cash Disbursements	\$ 7,306
Cash Balance - July 1, 2002	<u>25,387</u>
Cash Balance - June 30, 2003	<u><u>\$ 32,693</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH
FLows - PROPRIETARY FUND TYPE

MONTGOMERY COUNTY
STATEMENT OF CASH
FLOWS - PROPRIETARY FUND TYPE

For The Year Ended June 30, 2003

	Enterprise Fund Type
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Operating Gain	<u>\$ 7,306</u>
Net Cash Provided By Operating Activities	<u>\$ 7,306</u>
Net Increase (Decrease) in Cash	\$ 7,306
Cash and Cash Equivalents - July 1, 2002	<u>25,387</u>
Cash and Cash Equivalents - June 30, 2003	<u><u>\$ 32,693</u></u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Montgomery County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Montgomery County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Montgomery County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Montgomery County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Montgomery County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Montgomery County Special Revenue Fund Type includes the following county funds: Finneran Fund, Health and Civic Center Fund, Emergency Food and Shelter Fund, Juvenile Justice Fund, and Revolving Loan Fund.

3) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Montgomery County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets are not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Montgomery County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. The county considers certificates of deposit with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Jointly Governed Organization

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Mount Sterling/Montgomery County Airport meets the criteria noted above and is disclosed as an organization jointly governed by the city of Mount Sterling and Montgomery County.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Notes Receivable

A. The county loaned \$600,000 to Thornberry Enterprises, Inc. on September 22, 1994, for the purpose of constructing a wood products manufacturing facility. Terms of the agreement stipulate a ten-year repayment schedule at 3.0 percent interest. Thornberry Enterprises, Inc. is in substantial compliance with the terms of the agreement. As of June 30, 2003, the principal balance due was \$261,753.

B. The county loaned \$100,000 to Tenth Frame Cinema on September 24, 2001, for the purpose of building and purchasing equipment. Terms of the agreement stipulated a five-year repayment schedule at 6.5 percent interest. Tenth Frame Cinema paid the loan in full on May 23, 2003.

Note 5. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$3,980,885 of revenue bonds at various interest rates, of which the county has agreed to pay \$961,340 principal and a proportional share of interest on the issue to be paid in full on October 1, 2014. Revenue bonds outstanding as of June 30, 2003, totaled \$610,872. Future principal and interest requirements are:

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Long-Term Participation Agreement (Continued)

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 37,610	\$ 35,496
2005	35,287	37,747
2006	32,818	40,140
2007	30,192	42,686
2008	27,400	45,392
2009-2013	88,505	273,964
2014-2015	8,720	135,447
Totals	<u>\$ 260,532</u>	<u>\$ 610,872</u>

Note 6. Lease Agreements

- A. The county entered into a lease agreement on June 2, 1995, with the Kentucky Association of Counties Leasing Trust for renovation of the courthouse annex. The original principal was \$750,000. On May 7, 2001, the lease agreement was restructured. The new lease stipulates a term of 4 years and an interest rate of 3.56%. The lease will terminate January 20, 2005. As of June 30, 2003, the principal outstanding was \$175,000. Future lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 6,037	\$ 86,000
2005	2,252	89,000
Totals	<u>\$ 8,289</u>	<u>\$ 175,000</u>

- B. The county entered into a lease agreement on March 25, 2002, with the Kentucky Association of Counties Leasing Trust for the purchase of land for the expansion of the industrial park. The principal amount was \$499,000. The lease stipulates a term of 5 years and an interest rate of 3.25%. The lease will terminate March 20, 2007. As of June 30, 2003, the principal outstanding was \$405,480. Future lease principal and interest requirements are:

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Lease Agreements (Continued)

B. (Continued)

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 14,992	\$ 96,560
2005	11,165	99,698
2006	7,214	102,938
2007	3,134	106,284
Totals	<u>\$ 36,505</u>	<u>\$ 405,480</u>

- C. The county entered into a lease agreement on November 19, 2002, with Farmers Bank and Capital Trust Company for the purchase of three vehicles for the Montgomery County Sheriff's Department. The principal amount was \$64,910 and the lease stipulates a term of 36 months. As of June 30, 2003, the principal outstanding was \$52,813. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,140	\$ 21,092
2005	1,072	22,160
2006	119	9,561
Totals	<u>\$ 3,331</u>	<u>\$ 52,813</u>

- D. The county entered into a lease agreement on November 19, 2002, with Farmers Bank and Trust Company for the purchase of a vehicle. The principal amount was \$21,734 and the lease stipulates a term of 36 months. As of June 30, 2003, the principal outstanding was \$17,683. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 716	\$ 7,062
2005	359	7,420
2006	40	3,201
Totals	<u>\$ 1,115</u>	<u>\$ 17,683</u>

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2003, Montgomery County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MONTGOMERY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 4,184,202	\$ 4,084,695	\$ (99,507)
Road and Bridge Fund	1,311,974	838,194	(473,780)
Jail Fund	1,681,324	1,237,251	(444,073)
Local Government Economic Assistance Fund	88,000	71,663	(16,337)
<u>Special Revenue Fund Type</u>			
Finneran Fund	3,000	3,978	978
Health and Civic Center Fund	172,500	163,295	(9,205)
Emergency Food and Shelter Fund	18,000	15,784	(2,216)
Juvenile Justice Fund	65,000	1,840	(63,160)
Revolving Loan Fund	97,750	166,218	68,468
Totals	<u>\$ 7,621,750</u>	<u>\$ 6,582,918</u>	<u>\$ (1,038,832)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 7,621,750	
Add: Budgeted Prior Year Surplus		2,226,000	
Less: Other Financing Uses		<u>(2,175,796)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 7,671,954</u>	

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SCHEDULE OF OPERATING REVENUE

MONTGOMERY COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE		Totals (Memorandum Only)
	General Fund Type	Special Revenue Fund Type	
Taxes	\$ 3,141,604	\$	\$ 3,141,604
Excess Fees	227,011		227,011
Licenses and Permits	88,751		88,751
Intergovernmental Revenues	2,198,028	57,201	2,255,229
Charges for Services	101,172	13,478	114,650
Miscellaneous Revenues	388,982	268,366	657,348
Interest Earned	86,255	12,070	98,325
Total Operating Revenue	<u>\$ 6,231,803</u>	<u>\$ 351,115</u>	<u>\$ 6,582,918</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MONTGOMERY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,465,728	\$ 1,246,097	\$ 219,631
Protection to Persons and Property	1,474,182	1,367,827	106,355
General Health and Sanitation	195,428	179,050	16,378
Social Services	75,341	71,695	3,646
Recreation and Culture	94,447	86,563	7,884
Transportation Facilities and Services	37,000	30,890	6,110
Roads	1,212,474	1,189,356	23,118
Airports	25,000	25,000	
Debt Service	99,793	64,906	34,887
Administration	2,210,311	1,533,657	676,654
Total Operating Budget - General Fund Type	\$ 6,889,704	\$ 5,795,041	\$ 1,094,663
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal	2,000,000	1,780,600	219,400
Capital Lease Agreements-			
Principal on Leases	142,416	142,416	
Jail Participation Agreement-			
Principal	33,380	33,379	1
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 9,065,500</u>	<u>\$ 7,751,436</u>	<u>\$ 1,314,064</u>

MONTGOMERY COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 65,000	\$ 42,030	\$ 22,970
General Health and Sanitation	153,000	104,788	48,212
Social Services	18,000	15,784	2,216
Capital Projects	14,000	900	13,100
Administration	532,250	34,604	497,646
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 782,250	\$ 198,106	\$ 584,144

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Banford D. Wilson, Jr., Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Montgomery County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Montgomery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 18, 2004

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM


MONTGOMERY COUNTY FISCAL COURT

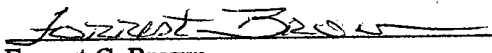
For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MONTGOMERY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Montgomery County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Banford D. Wilson, Jr.
Montgomery County Judge/Executive


Forrest C. Brown
Montgomery County Treasurer

